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OAKWOOD PETROLEUMS LTD.

annual report 1980

OAKWOOD PETROLEUMS LTD.

DIRECTORS

DALLAS E. HAWKINS II,
Calgary, Alberta
Chairman of the Board
of the Company
Chairman of the Board of
American Eagle Petroleums Ltd.

*BRIAN S. EKSTROM,
Calgary, Alberta
President of the Company
Treasurer of American Eagle
Petroleums Ltd.
President of Brian Ekstrom
Management Ltd.

KENNETH W. GERMOND,
Calgary, Alberta
Executive Vice-President
of the Company

*R. ROSS HAMILTON,
Calgary, Alberta
President of Great Basins
Petroleum Co.
President of Scoteire
Exploration Ltd.

RICHARD D. JENSEN,
Dallas, Texas, U.S.A.
President of American
Oakwood Energy Ltd.

BRIAN G. McCOMBE,
Calgary, Alberta
Partner, McCombe Cameron

*EDWARD G. McMULLAN,
Calgary, Alberta
President of E. G. McMullan Ltd.

GEORGE OUGHTRED,
Calgary, Alberta
Chairman of the Board of Commerical
Oil and Gas Ltd.

*audit committee

OFFICERS

DALLAS E. HAWKINS II,
Chairman of the Board

BRIAN S. EKSTROM,
President

KENNETH W. GERMOND,
Executive Vice-President

D. NOLAN BLADES,
Vice-President, Production
and Operations

ANDY J. BLASHYN,
Vice-President, Exploration

BRIAN G. McCOMBE,
Secretary

SENIOR PERSONNEL

WAYNE R. COOPER
Office Manager

DAVE R. JORDAN
Field Supervisor

DONALD A. McCUAIG
Field Supervisor

A. NEIL McPHERSON
Land Manager

JOHN M. PARTRIDGE
Controller

HEAD OFFICE
#1800, 311 Sixth Avenue S.W.
Calgary, Alberta T2P 3H2

SUBSIDIARY COMPANIES

OAKWOOD RESOURCES LTD.
BUENO OILS LTD.
FLAMINGO OILS LIMITED (N.P.L.)
BAYVIEW OIL & GAS LTD.
HURON RESOURCES MANAGEMENT LTD.

OAKWOOD INTERNATIONAL PETROLEUM N.L.
OAKWOOD PETROLEUM CORPORATION
OAKWOOD RESOURCES (U.K.) LTD.
AMERICAN OAKWOOD ENERGY LTD.
OAKWOOD RESOURCES INC.
OAKWOOD PETROLEUMS (IRELAND) LTD.
OAKWOOD PETROLEUMS ITALIANA S.P.A.

AMERICAN EAGLE PETROLEUMS LTD.
AMERICAN EAGLE PETROLEUMS, INC.
GULL OIL & GAS LTD.

SHARES LISTED
The Toronto Stock Exchange

BANKERS
The Bank of Montreal
Calgary, Alberta
Continental Illinois National Bank
and Trust Company of Chicago
Chicago, Illinois and
Toronto, Ontario

AUDITORS
Thorne Riddell
Calgary, Alberta

REGISTRAR
Canada Trust Company,
Calgary, Alberta

TRANSFER AGENTS
Canada Trust Company,
Calgary, Alberta
and Toronto, Ontario
Bank of Bermuda Limited,
Hamilton, Bermuda

COMPARATIVE HIGHLIGHTS

	1980	1979	1978	1977	1976
FINANCIAL (000's $)					
Total Revenues	**$ 38,370**	$ 19,282	$ 7,067	$ 4,505	$ 2,582
Cash Flow from Operations	**15,618**	8,445	3,334	2,011	994
Per Share	**3.18**	1.74	.69	.44	.23
Net Earnings Applicable to Common Shares Before Deferred Income Taxes	**8,147**	3,342	1,823	895	239
Per Share	**1.66**	.70	.38	.20	.05
Net Earnings (Loss)	**4,361**	(2,069)	934	557	73
Per Share	**.89**	(.43)	.20	.12	.02
OPERATIONS					
Oil & Natural Gas Liquids Production (barrels)	**2,650,379**	1,480,182	323,000	230,454	204,345
Daily Average	**7,241**	4,055	885	631	560
Natural Gas Production (mmcf)	**7,092**	5,307	3,080	3,034	1,907
Daily Average	**19.4**	14.5	8.4	8.3	5.2
Oil and Gas Lease and Permit Acres					
Gross	**10,607,000**	8,407,524	8,442,443	2,350,069	1,265,318
Net	**1,486,000**	1,180,677	1,140,267	303,859	221,048

CHAIRMAN'S REPORT TO THE SHAREHOLDERS

It was the best of times,
It was the worst of times,
It was the age of wisdom,
It was the age of foolishness.

Tale of Two Cities
1859 Charles Dickens

The year 1980 was good for your Company in many ways. For example, gross sales increased 100% compared to the previous year to $38.4 million. Reserves increased by 24%, as the result of an on-going program of exploration, acquisition and exploitation. Earnings "bottom line" went from a 43¢/ share loss to an 89¢/share profit.

Unfortunately the year also brought about a harsh change in the relationship between the Canadian oil industry and our Federal Government, a change which was not to the benefit of Oakwood, the oil industry, or Canadian energy consumers.

In these pages you will find a detailed description of your Company's progress during 1980 in the areas of production, exploration, profits, and growth. I can assure you that your management is working every day to improve the growth-rate of the Company. Emphasis is on results in the form of: (1) Cash Flow, and (2) Reserves. These two factors appear to be the critical factors in the measurement of the strength of any oil and gas company.

The principal accomplishments during the year 1980 were:

1. Development and improvement of the Grand Forks area producing capacity to 9,000 barrels of oil per day from 6,000 barrels of oil per day at the beginning of the year;
2. Successful placement of $37,500,000 of convertible preferred shares, providing more working capital for the Company;
3. Continuation of our Canadian exploration program;
4. Organization of Oakwood International Petroleum N.L. to participate in the exciting Australian play; and,
5. Creation of our United States Company for direct participation in that country's oil and gas development.

With the introduction of the National Energy Policy of October 28th, 1980, it has become evident that the Federal Government is going to extract substantial amounts of tax from the Canadian-owned oil companies. In addition it is apparent that the Federal presence will be a very large element in our industry. We must adjust our investment program to conform with a reduction in available exploration money, as well as the counterproductive socialistic political philosophy which we see developing.

In response to the National Energy Program, your management has decided to create a new Canadian public company, which will explore and produce only in the United States. Initially this company — American Oakwood Energy Ltd., will belong entirely to you as shareholders of Oakwood Petroleums Ltd., the Canadian "parent". A dividend of these shares will be distributed to Oakwood shareholders in June, 1981. Subsequently, additional funds will be raised in Canada by share offerings. Mr. R. D. Jensen, formerly Executive Vice-President of the Canadian Company, has assumed the position of President of the American Company and will be located in Dallas, Texas.

To accommodate the growing workload within the Company, various important changes in management have been made. Mr. Brian S. Ekstrom has been appointed President and Mr. Kenneth W. Germond has been named as Executive Vice-President. Mr. Andrew Blashyn now serves as Vice-President Exploration.

Mr. D. Nolan Blades joined your Company in mid 1980 as Vice President, Production and Operations.

During the year, Mr. Gerhard Kasdorf resigned as a director of Oakwood. Mr. Kasdorf served on the Board from 1976 until 1981. His advice and counsel will be missed. His contribution to the Company was appreciated.

Any company is a group of individuals acting together. Your Company is most fortunate in having a team of competent, hard-working, dedicated people who make it all work. The Board of Directors wishes to take this opportunity to say how much each individual employee's contribution to the Company is appreciated. Our people are second to none in the entire industry.

We look forward to 1981 as an opportunity to improve the Company's position in all key areas.

Sincerely,

Dallas E. Hawkins II

Dallas E. Hawkins II
Chairman of the Board and
Chief Executive Officer

PRESIDENT'S REPORT

1980 IN REVIEW

The accompanying Annual Report for your consideration of Oakwood Petroleums Ltd., its activities and financial results for the year 1980 reflects that as in prior years, your Company enjoyed a significant level of growth during the operating year 1980. Fortunately this is evidenced not only in terms of revenue levels, but also in terms of net earnings and cash flows available for reinvestment by the Company. For the fiscal year ended December 31, 1980 your Company reports a cash flow from operations of $15,600,000 or $3.18 per common share of Oakwood. Net earnings applicable to the common shares outstanding amounted to $4,361,000 or $0.89 per share as compared to a loss exceeding $2,000,000 or $0.43 per share for 1979.

The Chairman's report has highlighted some of the more pertinent developments during the year, and some of these will be elaborated upon herein. Gross revenues from the Company's oil and gas producing operations rose to exceed $38,000,000 in the year 1980. This represents a 100% increase from 1979 total revenues of $19,000,000. This compares to total revenues for the Company for the year ended December 31, 1970 — being the first year of Oakwood's operations under its present management, which totalled $335,000. Your Company's management anticipates and indeed is confident in estimating that gross revenues will continue to rise in 1981 and future years. This increase is projected in spite of the negative impact of the National Energy Program and the October 28, 1980 Budget introduced by our Federal Government. In fact the 8% Petroleum and Gas Revenue Tax which came into effect on January 1, 1981 will have a significant negative impact on your Company's revenue levels in the coming year. It is estimated that this new level of taxation by our Federal Government will cost your Company in excess of $6,000,000 in 1981 or an approximate $1.20 per share reduction in earnings and cash flow.

Hopefully the various government levels will reach a compromise in the near future as to both pricing and taxation, and hopefully such compromise will not be at the total expense of the industry and companies such as Oakwood.

In 1980, your Company's management was successful in completing two financings which will have positive impacts on your Company's activities and profitability levels for many years to come. Firstly, in January 1980, your Company successfully placed a long-term secured note issue, the proceeds of which netted the Company treasury approximately $100,000,000. Proceeds from this financing were utilized to significantly reduce your Company's high cost bank borrowings and provide a much sounder long-term debt structure. The financing carries an effective interest rate over its sixteen year life of 11.2%, a rate which becomes increasingly attractive in today's money markets. Further, the Company will enjoy a four year deferral before commencing repayment of the notes, hence providing extra available working capital for reinvestment in attractive exploration and acquisition opportunities.

Then in June 1980 — as highlighted in the Chairman's report, your Company successfully completed the issuance of 1,500,000 Convertible First Preferred Shares Series "A". Proceeds from this equity issue provided the Company treasury with approximately $35,000,000. Again, proceeds from the issue were utilized to further reduce the Company's level of bank borrowings and to enhance our working capital position.

As a consequence of these two financings and your Company's significantly increased levels of cash flow, Oakwood finds itself in a very strong posture to pursue its policies of exploration growth and acquisition in the upcoming year.

Your Company management has perceived that there are many very attractive investment opportunities in the energy area, outside of Canada. It was with a view to capitalizing on these opportunities that an Australian subsidiary was created in 1980 and

financed in Australia during the year. Further discussion on Oakwood International Petroleum N.L. is found later in this report.

During 1980 it became obvious to the management of Oakwood that the Federal Government encroachment into the industry would make it much more attractive to separate our American activities from the overall Canadian corporation. Hence the creation of American Oakwood Energy Ltd. which the Chairman has already referred to. At the time of writing, this restructuring is in its final stages and should be finalized by the time you receive this report. Again I would refer you to a later section of this report specifically dealing with our American activities.

After finalization of a restructuring of your Company's affairs as mentioned in the Chairman's report, your Company — Oakwood Petroleums Ltd., will continue its direct exploration and development efforts solely in Canada. It is the opinion of your management that this restructuring will enable Oakwood to take maximum advantage of whatever positive features are to be found in the National Energy Program — specifically the exploration incentives both on Provincial lands and Federal lands. Oakwood will be in a position to realize the maximum amount from the Federal Government under these incentive programs. While we do not agree with such type of governmental involvement, we must continue to operate in the most profitable manner we can under the rules to which we are confined.

In conclusion, we are confident that Oakwood Petroleums Ltd. will continue to prosper and thrive in the Canadian oil and gas industry, in spite of the restrictions and taxation burden which we see ourselves confronted with, and even though the prosperity level will be restricted by onerous taxation burdens. Your management is confident that we now have the Company structured in a fashion so as to capitalize on available opportunities and situations in various areas of the world, and hence maximize potential return and growth to you, the shareholder. Your continued confidence and interest in our Company is deeply appreciated as we strive to make Oakwood an even more significant part of the industry in the year ahead.

Brian S. Ekstrom

Brian S. Ekstrom
President

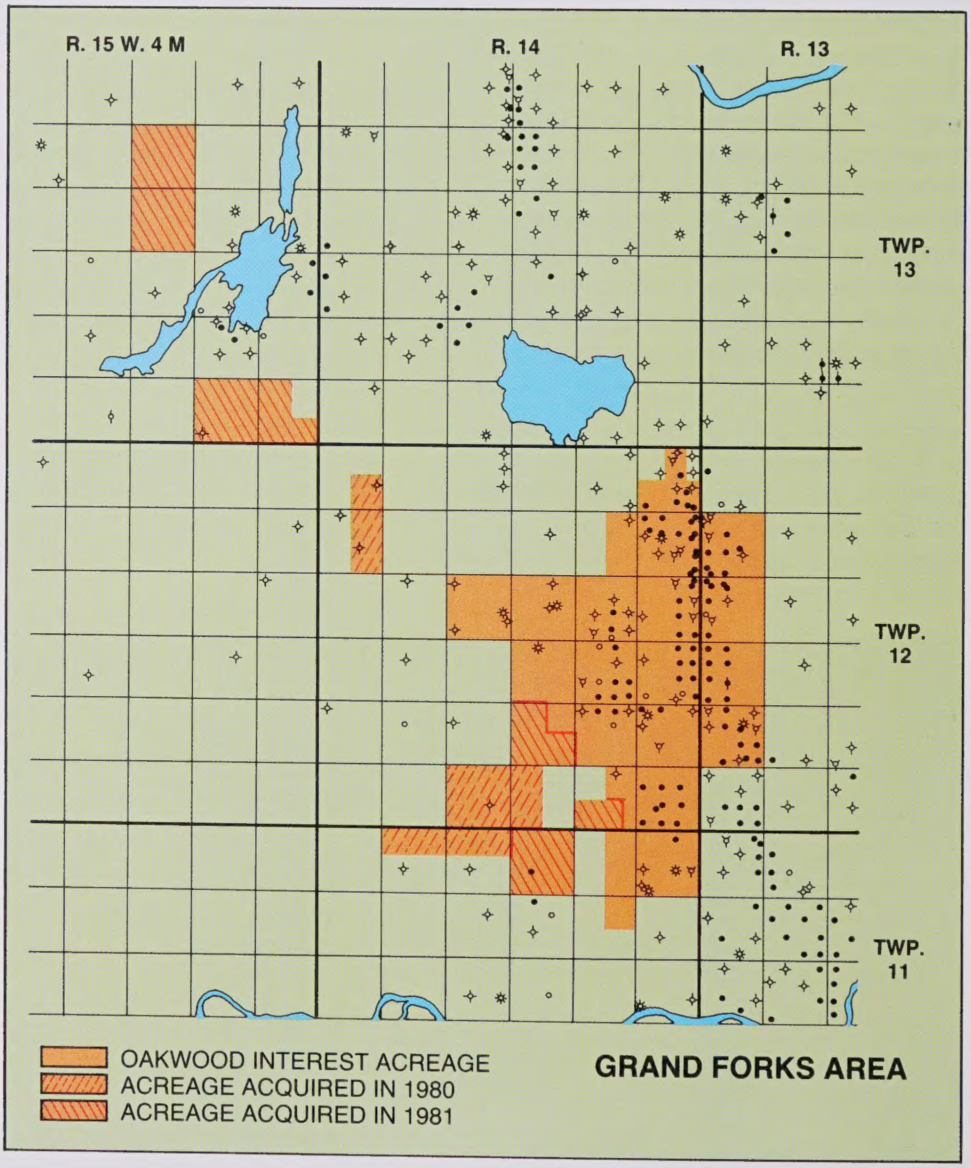
OAKWOOD PETROLEUMS LTD.

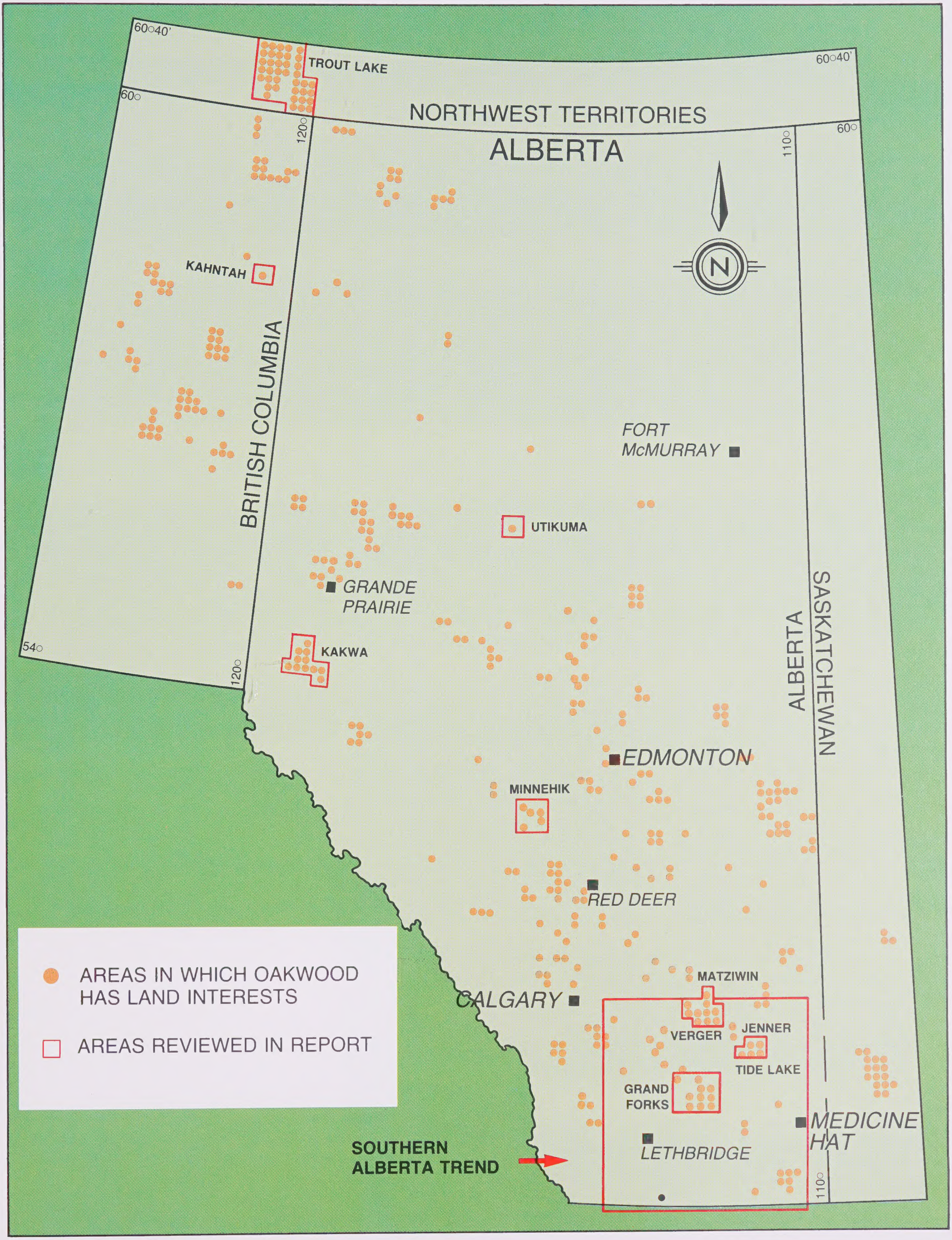
EXPLORATION

Kenneth W. Germond

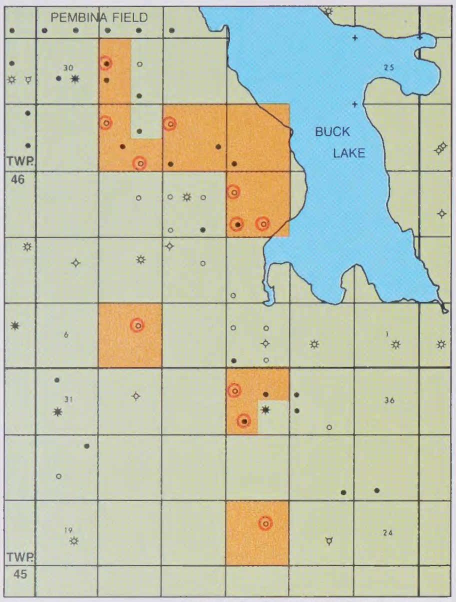
GRAND FORKS

The application of geophysical techniques to complement the development drilling program at Grand Forks was undertaken during the latter half of 1980. Seismic control in excess of 100 miles has been acquired and integrated with well information to provide interpretive templates to assist in the exploitation of the field. Initial results of the interpretation have been utilized in the selection of exploratory step-out locations and in the evaluation of acreage available for acquisition. During 1980, Oakwood acquired a total of 2080 acres at Crown sales and has continued to add to the land inventory in 1981 by purchasing an interest in 3760 acres to date. This represents a gross increase of 5840 acres with 4624 acres net to Oakwood. In addition the Company is aggressively pursuing prospective acreage through farmin opportunities.




60°40'
TROUT LAKE
60°40'
60°
NORTHWEST TERRITORIES
120°
110°
60°
ALBERTA
N
KAHNTAH
BRITISH COLUMBIA
FORT McMURRAY
UTIKUMA
GRANDE PRAIRIE
54°
KAKWA
120°
ALBERTA
SASKATCHEWAN
EDMONTON
MINNEHIK
RED DEER
AREAS IN WHICH OAKWOOD HAS LAND INTERESTS
AREAS REVIEWED IN REPORT
MATZIWIN
CALGARY
VERGER
JENNER
TIDE LAKE
GRAND FORKS
MEDICINE HAT
LETHBRIDGE
SOUTHERN ALBERTA TREND
110°

RGE. 6 W. 5M



MINNEHIK - BUCK LAKE AREA

OAKWOOD INTEREST ACREAGE

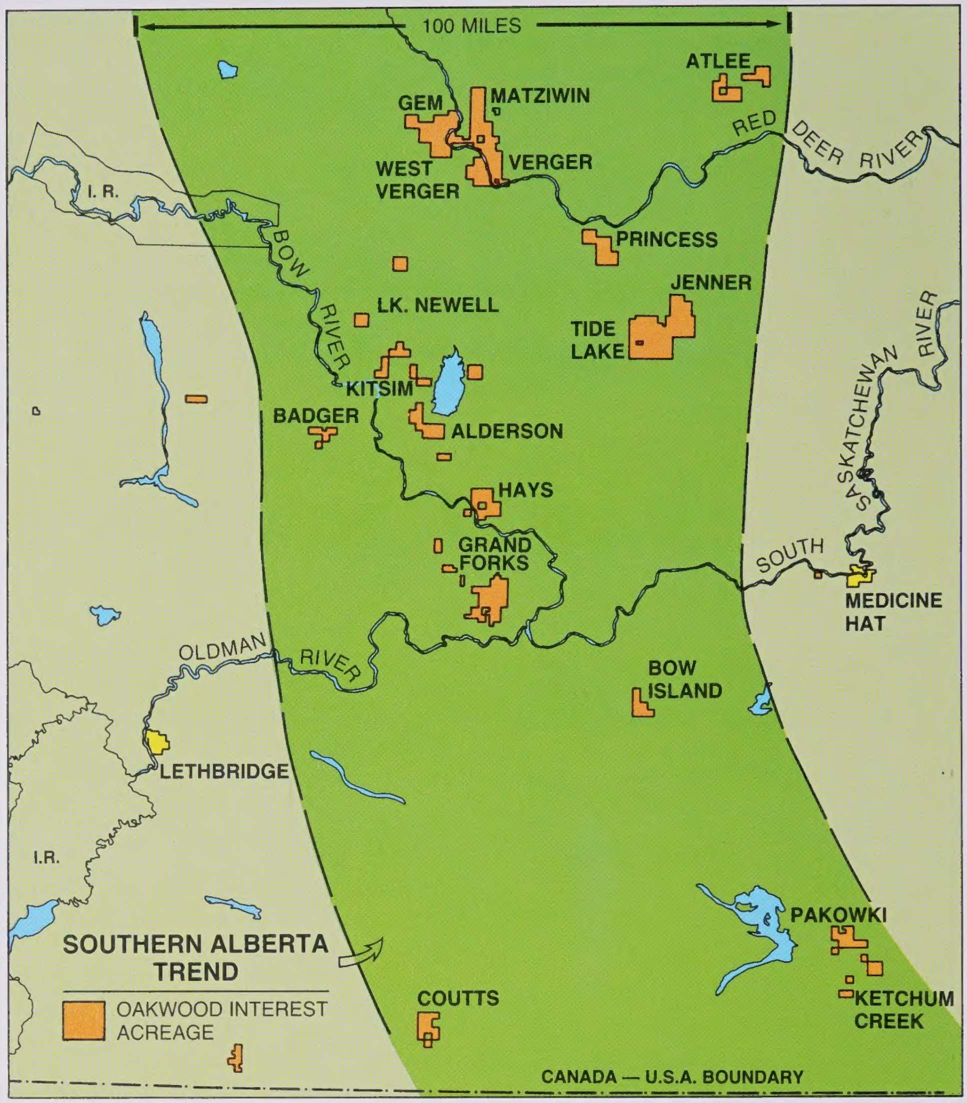
1981 DRILLING PROGRAM.

MINNEHIK - BUCK LAKE

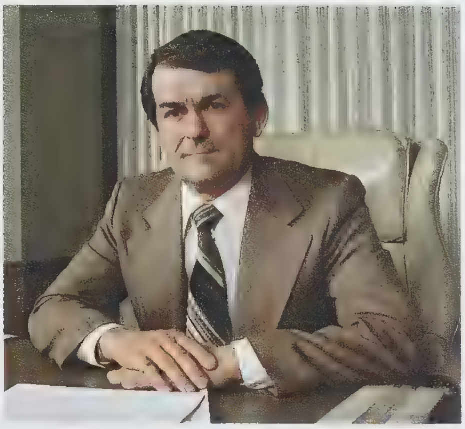
During 1980 the Company participated in an exploratory drilling program to extend the Pembina Cardium field southward. As a result, all six wells drilled were completed as Cardium oil wells with two dually completed as Belly River oil wells. An aggressive follow-up drilling program is underway for 1981. To date three wells have been completed as producers with eight more locations proposed. Two of these proposed locations will be significant exploratory step-outs, one of which will earn an additional 640 acres for the partnership. Oakwood has a 25% working interest in 3840 acres plus 18.75% in the 640 acre lease.

SOUTHERN ALBERTA TREND

The area designated on the index map as the Southern Alberta Trend is an area in which Oakwood has experienced a significant success ratio. In an effort to add to that success, the Company is emphasizing a strong exploration program and intends to expand and escalate those efforts in 1981. The area is conducive to the application of innovative geological - geophysical technology. This aproach is currently being utilized in the development of Oakwood's existing holdings and in the pursuit of other prospective acreage. Exploration and drilling



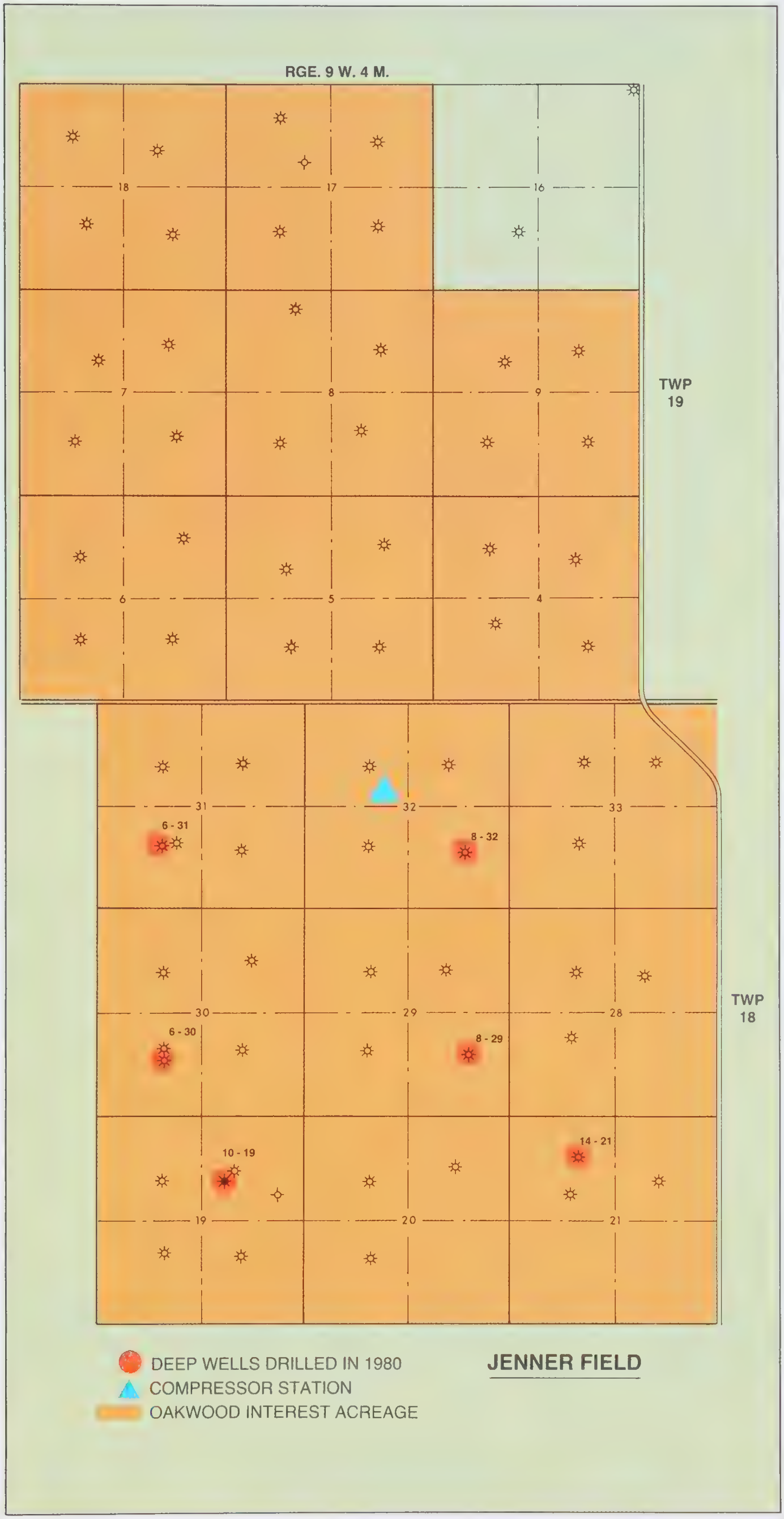
of new prospects is presently underway at Coutts, Bow Island, Grand Forks, Alderson and Kitsim. In addition to the development of new prospects, Oakwood will participate in an extensive development drilling program to increase its natural gas reserves at Jenner, Tide Lake, Matziwin, Gem, Verger and West Verger, to support anticipated gas contract negotiations.



Andy J. Blashyn

JENNER AREA

Exploration as to the deeper Cretaceous gas horizons in the Jenner area resulted in the drilling of six wells this year. All of the wells encountered gas in the Bow Island and/or the Basal Colorado zones and were cased for production. It is estimated that approximately 17 billion cubic feet (485 × $10^6 m^3$) of new gas reserves have been established. Three of the wells have been deliverability-tested and there is a possibility that the gas can be marketed through an existing gas sales contract commencing in November, 1981.



At Kakwa where the Company has a small working interest under approximately 127,000 acres, four wells were drilled during the year. Two of the wells were of the exploratory category and were completed as potential gas wells; the other two were classified as development, one being a gas well and the other a potential oilwell. Plans for 1981 include participation in several exploratory holes, the first of which is currently approaching total depth.

The Labrador Shelf was the scene for further drilling in late 1980. Chevron Standard drilled its second well on the Hopedale Block at a location lying 25 kilometres southeast of its original gas discovery of 1978. The Labrador M-79 reached its 3571 metre total depth and was temporarily abandoned when the fall drilling season was terminated. Results of the well indicated poor gas showings in the hole but it was not practical to test them. Studies are underway as to the next exploration step; it is likely that a third structure will be tested by drilling, probably in 1982, in preference to re-entering the hole drilled in 1980. Oakwood will have a 1.529% working interest in the entire block when the Chevron team has satisfied its commitments.

At the Trout Lake prospect in the Northwest Territories, further exploratory evaluation was delayed until 1981 because of late freeze-up of trails. A 2126 metre test in which Oakwood had a 50% working interest was commenced in January and abandoned as a failure in February after encountering water-bearing reef. Subsequent to the drilling, a 232 kilometre infill seismic program was carried out in an effort to utilize subsurface information gained from drilling in the evaluation of other anomalous features.

PERSPECTIVE — 1981

Oakwood will continue to escalate an aggressive exploration program by pursuing joint venture opportunities through farmin and option proposals and participation in competitive bidding at Governmental land sales. In addition, the Company's existing land inventory provides representation in areas of major industry activity. These areas will be evaluated with current "state of the art" exploration technology to mature prospects for drilling.

Evidence of this approach is indicated in the current development of the Grand Forks oil field. The integration of geological and geophysical data at Grand Forks has allowed Oakwood to develop an expertise which is being applied in the evaluation of other prospective areas in Southern Alberta.

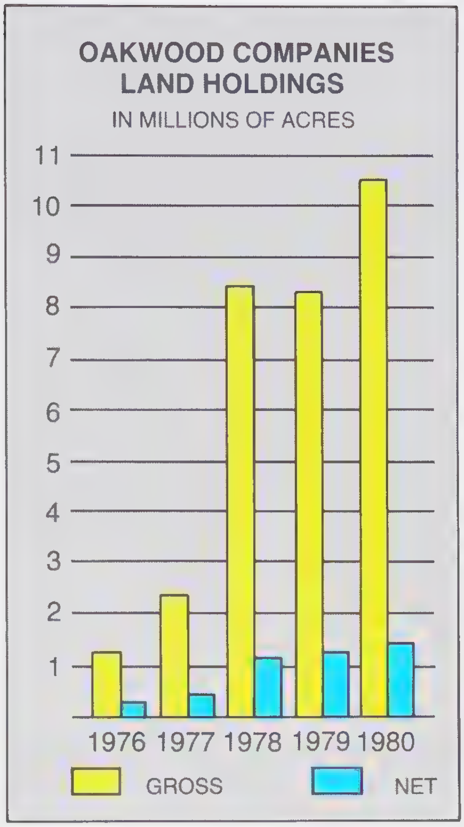
The company is participating in the drilling of an exploratory Keg River oil prospect in the Kahntah area of British Columbia. This test, located in an area of sparse exploration activity, will assist in the evaluation of a geological concept which will potentially lead to an extensive exploration and drilling program. Geophysical studies are presently underway to evaluate other acreage in which Oakwood has representation. Oakwood currently has a working interest position in approximately 41,000 acres on this trend.

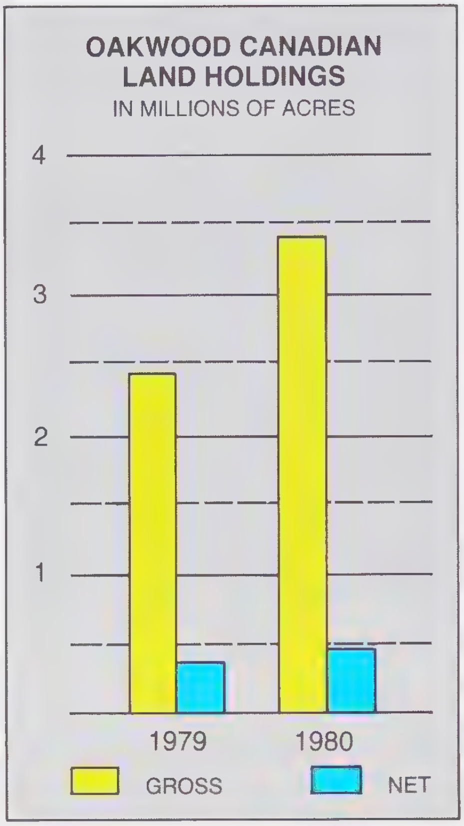
Participation as a joint venture partner in the drilling of three exploratory tests will earn Oakwood an interest in 7,000 acres of exploration licence in the Utikuma area of Northern Alberta. The licence includes six seismically defined Granite Wash structures. Two of these features have been drilled to date with the first yielding a porous sand with some water and the second encountering a thinner oil bearing sand. Due to seasonal drilling restrictions, follow-up drilling has been deferred until next winter.

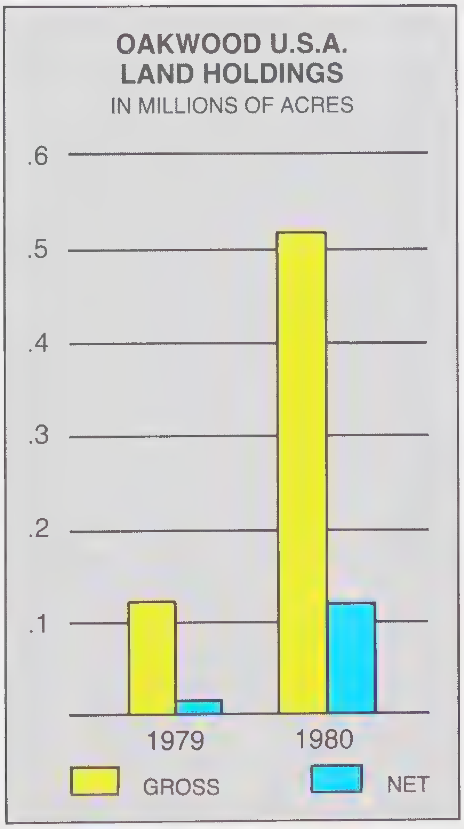
Oakwood's philosophy will be to maintain a high level of exploration activity through self generation of prospects and industry contact for development of new oil and gas reserves.

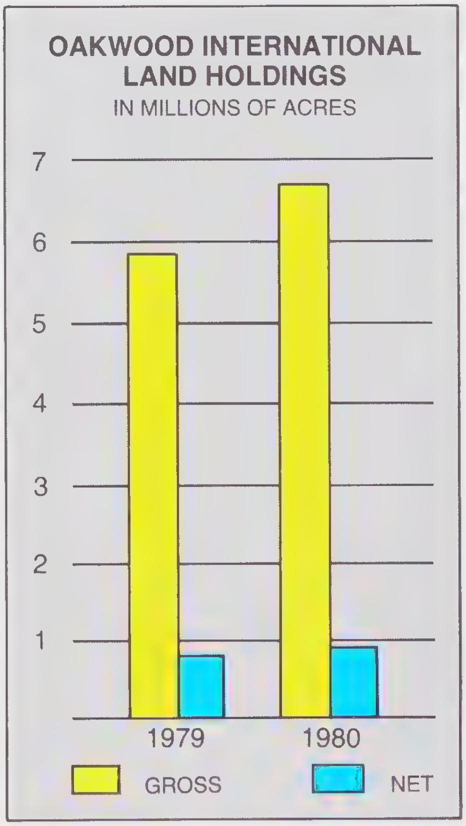
LAND COMMENTS

Oakwood experienced substantial growth in land holdings in 1980. Competitive bidding at Governmental sales was again emphasized and resulted in the acquisition of 29,225 acres of P&NG rights for the Company's account. The Company also participated in eight joint venture agreements with various industry partners on 335,772 gross acres situated in prospective areas in Alberta, British Columbia, Oklahoma, Texas, Wyoming, Montana, North Dakota, South Dakota, Kansas and New York. These joint ventures produced a net increase of 83,358 acres of lease rights. Oakwood's extensive world wide land inventory provides the Company with excellent representation in areas favourable for further successful exploration programs.

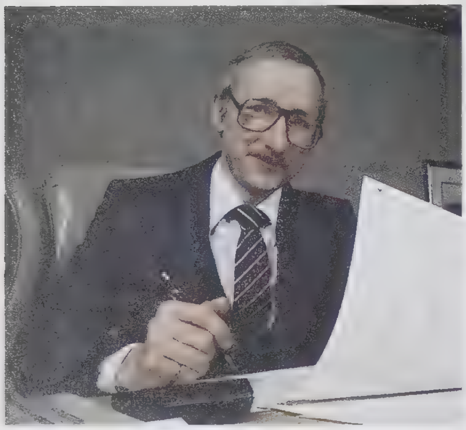








PRODUCTION & OPERATIONS



D. Nolan Blades

The oil and gas reserves of your Company continued to increase through 1980 with an annual growth of 12% and 35% respectively. Exploitation and exploration activities on Canadian properties accounted for an increase in oil reserves of 11% and an increase of 27% in gas reserves. The remainder of the reserves growth was largely associated with the acquisition of one half of the properties of Yucca Petroleum Company, an Amarillo, Texas based energy company. Canadian oil reserves were added primarily in the Grand Forks area through an infill and step-out drilling program and the continuing favourable waterflood performance.

Oakwood and subsidiaries participated in the drilling of 151 wells in Canada and the United States during 1980, resulting in 69 gas wells, 48 oil wells, 32 dry and abandoned holes and two suspended wells waiting on re-entry in 1981. Of the 96 wells drilled in Canada, Oakwood operated 57. The operated drilling activity in Canada centered around exploitation and infill wells in the oil and gas producing properties to more fully develop the Grand Forks area and to meet gas sales contract rates.

Daily oil production rates averaged 7241 barrels (1151 cubic metres) per day in 1980. This 80% increase in oil production, compared to the 1979 level, reflects the results of the infill drilling program and a full year of operations in the Grand Forks area. Low market demand for Western Canadian heavy crude oil during the majority of the year limited the production rates from Grand Forks. It is expected that there should be no significant market proration during 1981.

At the request of our major gas purchaser, Oakwood, along with the majority of the other producers in Alberta, voluntarily reduced the gas sales contract obligation to 80% for the next two years to eliminate the large take-or-pay commitments being faced by the purchaser. In British Columbia, low demand for gas in the Pacific Northwest United States resulted in severely curtailed gas production rates; no short term solution is seen for this problem. The inability of PanAlberta Gas to accept the volumes of new Alberta gas contracted in 1979 has resulted in only two of the Oakwood interest contracted areas being in a position to deliver gas in 1981.

Your Company continues to be concerned with the lack of opportunity to market shut-in and undeveloped gas reserves in Alberta and British Columbia. In this regard, alternative methods of marketing gas are being investigated.

The Company has a 25% working interest in six sections of land in the Minnehik-Buck Lake area on which six wells were drilled in 1980. All of the wells have been completed as Cardium oil wells and two of the wells were dually completed as Cardium and Belly River oil producers. Drilling will continue in 1981. It is expected that once the pools have been more fully delineated, a waterflood recovery scheme will be designed for the area.

Solution gas gathering plants were approved and construction was initiated during 1980 in three separate areas. Gas produced in association with crude oil in the Meekwap D-2A Unit will be gathered, compressed and processed in a Kaybob Area plant. Gas plants being constructed at oil production batteries in the Gladys and Alderson areas will commence operation next year.

In 1980, major revisions and additions were made to the production and injection facilities at Grand Forks which will provide for long term high volume production operations from the Oakwood properties. These modifications, coupled with 14 new wells, provided for a Grand Forks gross operated producing capability of 8176 barrels per day (1300 cubic metres) of oil by the end of 1980. A high volume lift pumping operation utilizing a submersible pump in a high water cut well successfully demonstrated that this type of producing operation could be applied to advantage in many of the Grand Forks wells. This method of producing will increase both productivity and ultimate recovery from the area.

A waterflood recovery project was initiated in the Grand Forks Lower

Mannville H Pool. As a result, all six pools operated by Oakwood are being pressure maintained. Infill and step-out drilling will be undertaken in 1981 to further delineate several of the pools and to provide for optimum recovery. It is anticipated that gross daily oil production rates will reach 9750 barrels (1550 cubic metres) per day in 1981.

The Company's gas production increased by 35% from 1979 levels to an average of 19,400 Mcf (549,350 cubic metres) per day for 1980. A continuing infill drilling program of 37 wells in Southeastern Alberta shallow gas areas accounted for the majority of the increase in gas production rates. During the year, Oakwood endeavoured to be in a position to meet all gas sales contract demands to ensure that contract terms could be maintained. This was undertaken through infill drilling and the installation of a new replacement compression facility in the Verger area. It is anticipated that infill drilling will continue in 1981 to maintain contract deliverability.

Oakwood's production operations are handled by 19 employees assigned to field offices in Brooks and Grand Forks, Alberta. Our field staff was responsible for operated production of 6370 barrels (1013 cubic metres) of oil per day and 18,217 Mcf (520,000 cubic metres) of gas per day from 352 wells during 1980. Additional staff was employed during the year to guarantee our ability to provide for equipment maintenance and to maximize on-stream times.

Exploitation activity in the United States was concentrated in two areas, Edwards County, Kansas and Freestone County, Texas. In Edwards County, the Company participated in 17 wells, 16 of which were cased as oil wells. Oil and associated gas production commenced in 1980 and further drilling in 1981 is expected to add significantly to productivity from the area. Oakwood's working interest in this property is 6.25%. Through participation in seven wells in Freestone County in 1980, Oakwood now has working interests in 20 wells and a royalty interest in one well capable of producing gas from the Jurassic Cotton Valley Lime. The Oakwood working interests in the wells vary from 2.823% to 37.5%. Production revenue is being received from nine of the wells and it is expected that revenue from the majority of the others will commence in 1981.

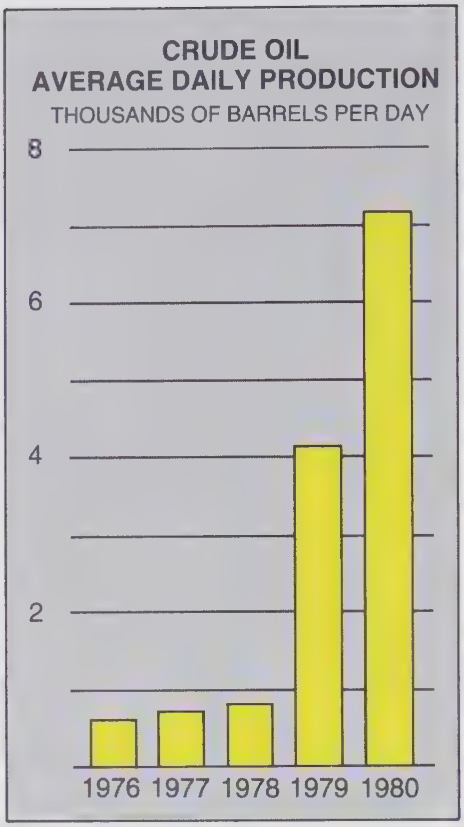
NET RESERVES
CANADIAN PROPERTIES

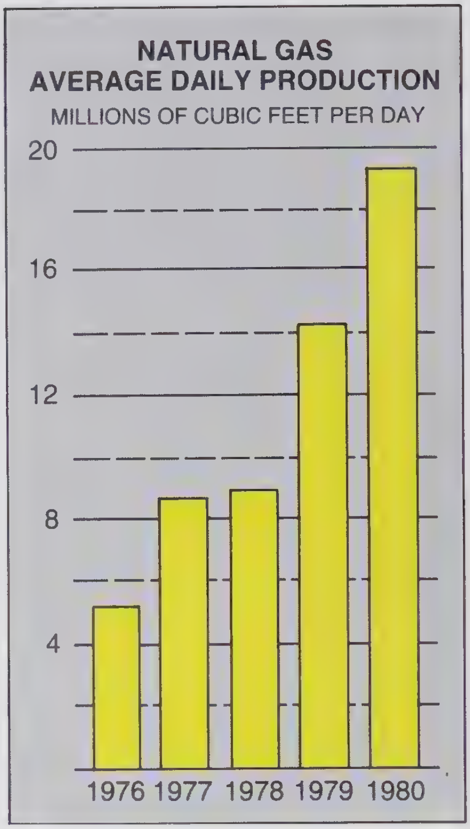
	Oil & NGL (bbls.)	Gas (mmcf)
Proved	28,925,000	180,934
Probable	560,000	30,277
Proved plus Probable	29,485,000	211,211

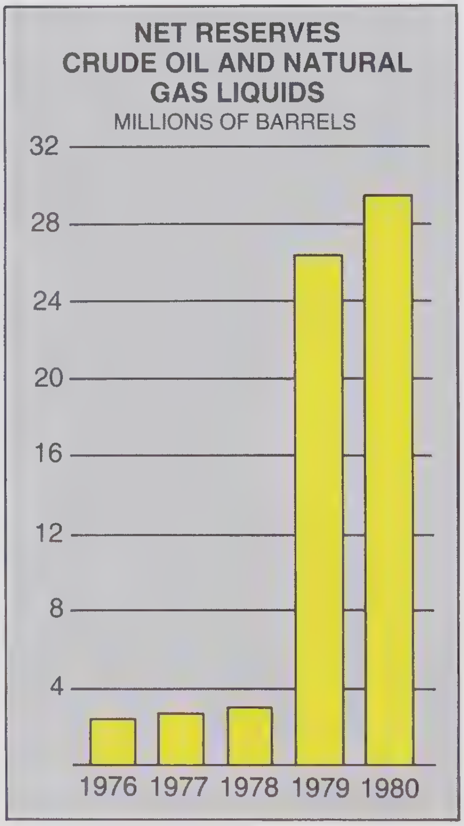
(1) BEFORE TAX CUMULATIVE CASH FLOW
(Thousands of Dollars)

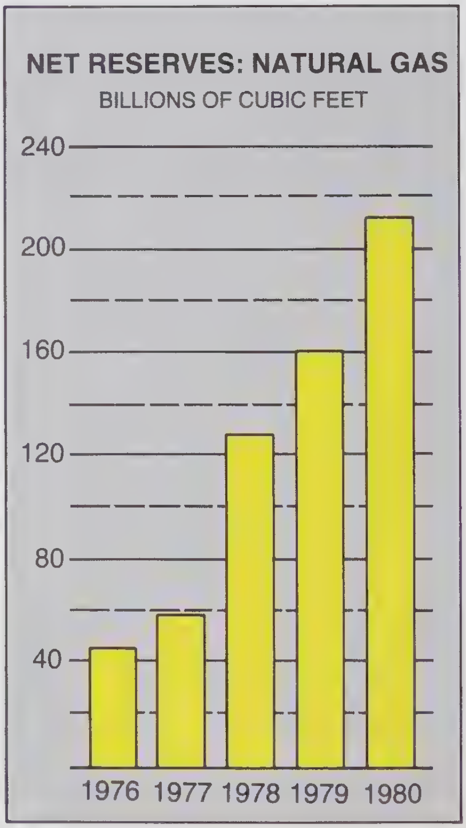
	Undiscounted	Discounted @ 12%	Discounted @ 20%
Proved	1,508,695	465,009	292,926
Probable	136,471	30,927	15,978
Proved plus Probable	1,645,166	495,936	308,904

(1) Based on a July 1, 1980 evaluation adjusted for the effect of the National Energy Policy.


CRUDE OIL
AVERAGE DAILY PRODUCTION
THOUSANDS OF BARRELS PER DAY
8
6
4
2
1976 1977 1978 1979 1980


NATURAL GAS
AVERAGE DAILY PRODUCTION
MILLIONS OF CUBIC FEET PER DAY
20
16
12
8
4
1976 1977 1978 1979 1980


NET RESERVES
CRUDE OIL AND NATURAL
GAS LIQUIDS
MILLIONS OF BARRELS
32
28
24
20
16
12
8
4
1976 1977 1978 1979 1980


NET RESERVES: NATURAL GAS
BILLIONS OF CUBIC FEET
240
200
160
120
80
40
1976 1977 1978 1979 1980

AMERICAN OAKWOOD ENERGY LTD.

Richard D. Jensen

During 1980 Oakwood Petroleums Ltd. management foresaw the benefits and indeed the evolving need to have our U.S. activities separated from under the scope of our Canadian parent Company and the consequent growing number of restrictions under which we find ourselves operating. This philosophy gave rise to the birth of American Oakwood Energy Ltd. — initially a wholly-owned subsidiary of Oakwood Petroleums Ltd.

At the time of this writing, we are in the final stages of having ownership of American Oakwood Energy Ltd. transferred to you — the shareholders of Oakwood Petroleums Ltd., on the basis of 1 share of American Oakwood for each 5 common shares of Oakwood Petroleums Ltd. now held. American Oakwood Energy Ltd. is then taking over ownership of Oakwood Resources Inc. from Oakwood Petroleums Ltd. As a consequence of this restructuring, the Oakwood shareholder now finds himself a shareholder in two companies — Oakwood Petroleums Ltd. as before, and American Oakwood Energy Ltd., a new Canadian public company whose entire activities are based in the United States of America and carried on through an American subsidiary — Oakwood Resources Inc. American Oakwood's main operations in terms of oil and gas activities will be headquartered in Dallas, Texas. Your Company, Oakwood Petroleums Ltd. will maintain an equity position in that Company and thus will participate in the Company's aggressive policy of exploration and acquisitions in a free enterprise, free market pricing environment. We are indeed optimistic about the prospects for American Oakwood and are confident that the equity position maintained by Oakwood in that Company will be a profitable one for Oakwood Petroleums Ltd. and hence its shareholders.

OAKWOOD RESOURCES INC.

The Company with two other Canadian operators entered into a joint venture agreement with a group of U.S. operators for the drilling of approximately 24 subsurface anomalies lying in Western Kansas. Two wells were drilled in late 1980 and another eight were completed in the first quarter of 1981. All of the holes were dry and abandoned. Oakwood, with a 21.66% working interest, will continue in the program, at least for the next 12 exploratory holes. Drilling costs are considered quite reasonable, and despite the early failures, the remaining prospects are attractive since all are in oil-prone areas.

In the west-central portion of the State of New York, the Company teamed with three other Canadian explorers in the drilling of ten shallow exploration holes. Casing was run in nine of the wells in order to better test the low porosity Ordovician Medina Sand objective. None of the wells appears to have present economic value and the team is trying to encourage others to drill in the immediate vicinity. Oakwood has a 30% earned interest in the prospects.

In an effort to take advantage of the attractive oil pricing and success ratio accredited to the U.S. Williston Basin, Oakwood committed to participating as to an average 25% working interest in the drilling of 13 wells within the basin and a bordering area in Wyoming. Results of the program indicate that there were five oil discoveries in the Ordovician Red River formation, four of which have economic reserves, and one gas discovery in Wyoming which has been tied into a gas sales system. There are at least five additional exploratory wells remaining in the expanded program, two of which are currently drilling toward the Red River objective.

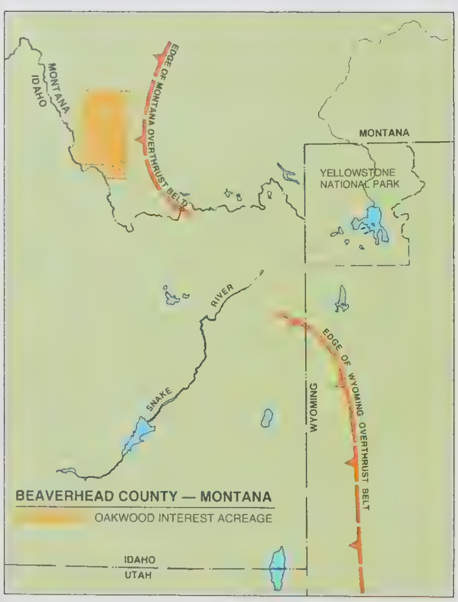
AUSTIN CHALK TREND

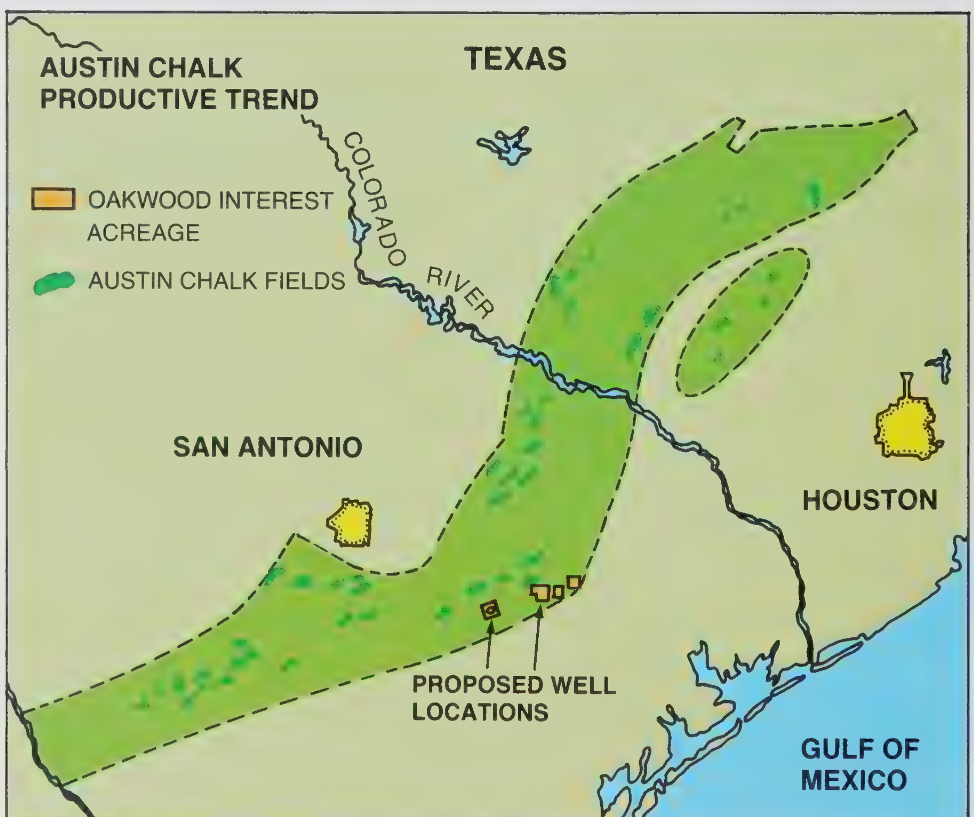
The recent acreage acquisition program in the highly active Austin Chalk trend in Texas has resulted in Oakwood securing a position in four separate lease blocks, totalling 5,000 acres. Geophysical programs have been conducted and are near completion with two drillable structures defined to date. These have been scheduled for early 1981 drilling.

MONTANA OVERTHRUST BELT

The company has also acquired a 25% working interest position in 250,000 acres in Beaverhead County, in the Montana Overthrust Belt. Extensive geological and geophysical programs have been conducted leading to a well projection for late 1981.

The area is analogous to the Wyoming Overthrust where significant oil and gas discoveries have been recorded in the Triassic and Permian beds.





OAKWOOD INTERNATIONAL PETROLEUM N.L.

As mentioned earlier in this report, Oakwood International Petroleum N.L. was established as a subsidiary of Oakwood Petroleums Ltd. during 1980. In September 1980, that Company then issued 28,000,000 shares and a like number of options to the Australian investing public. This netted the treasury of Oakwood International in excess of $7,000,000 Australian funds or approximately $9,000,000 Canadian. The effect of this public underwriting was to leave Oakwood International as a 63% controlled subsidiary of Oakwood Petroleums Ltd.

Oakwood International Petroleum N.L. with its significant cash reserve, finds itself attractively situated and structured to capitalize on the active exploration and development prospects presently found in Australia and certain other areas of the world. In addition, through its ownership of Oakwood Petroleum Corporation—a U.S. subsidiary, Oakwood International will enjoy a cash flow in 1981 from its producing operations in the United States of America of approximately one million dollars so, in addition to its highly prospective exploration opportunities in Australia and the Seychelles Islands, Oakwood International will be able to reap the benefits of a free market pricing structure on its American operations and will continue to seek new investment opportunities in the United States through Oakwood Petroleum Corporation. Its main exploration prospects will be discussed below.

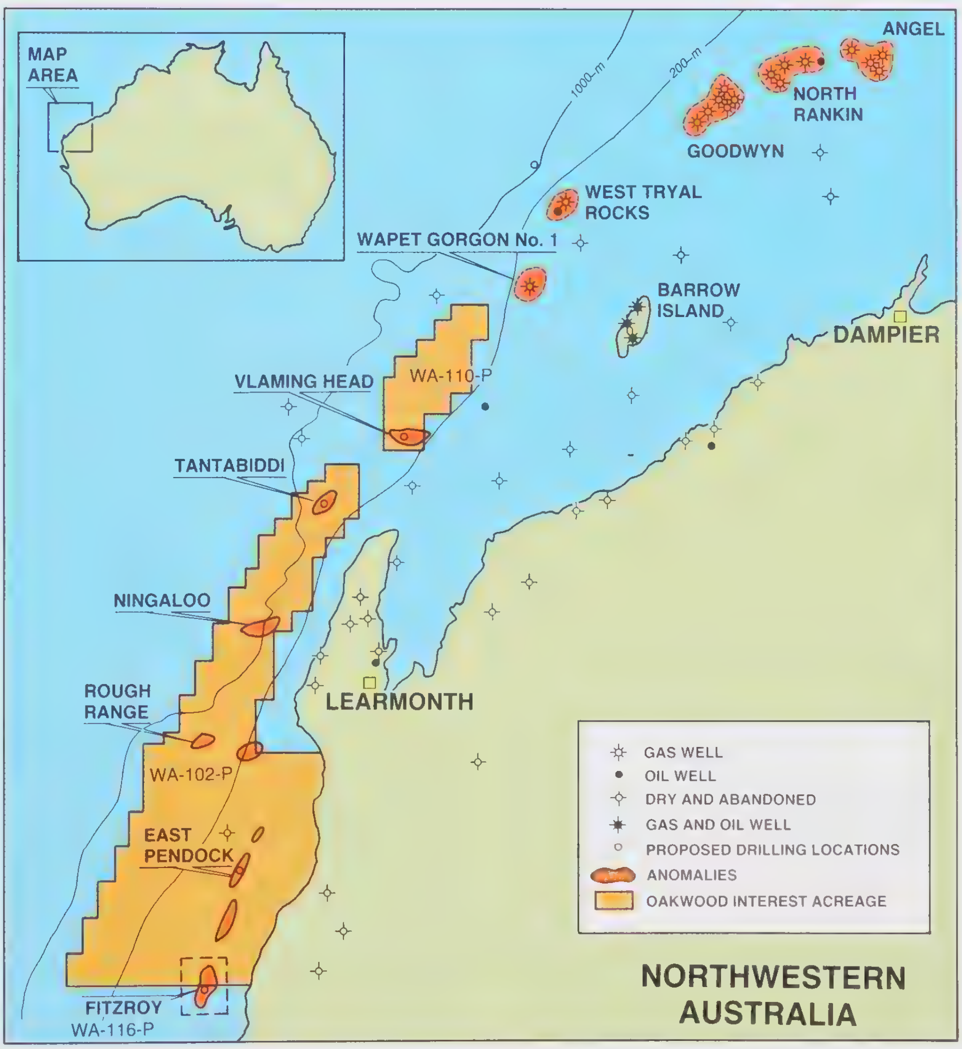
AUSTRALIA

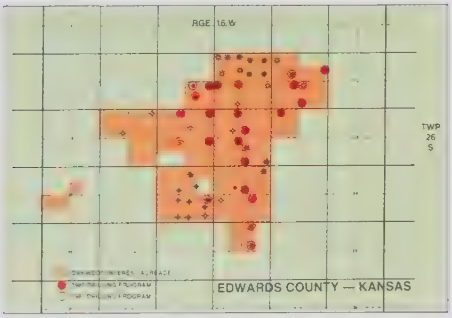
Oakwood, through its Australian subsidiary, has a 14% working interest in 4,900,000 acres in two permits in the offshore of Northwestern Australia. The group with which Oakwood is associated has conducted a total of 3200 kilometres of seismic coverage identifying seven structural features. Of these, four have been detailed and matured as drillable prospects.

The Vlaming Head feature, located on Permit WA-110-P, is a structurally controlled stratigraphic anomaly where the productive Barrow Sand group pinches out against a structural high plunging to the northeast. A recently announced gas discovery is located 11 kilometres to the northeast at the Wapet Gorgon No. 1 location.

The Tantabiddi structure is located at the northern extremity of Permit WA-102-P. This anomaly is a fault-bounded structure exhibiting strong four-way structural closure enhanced by a significant amplitude anomaly. Negotiations are underway to contract a suitable drilling vessel capable of drilling in water depths exceeding 700 metres.

The Fitzroy structure, located on the southern portion of Permit WA-102-P and extending into the adjacent Permit WA-116-P, is indicative of Devonian reef development with related structure at the Cretaceous level. An agreement was reached between the holders of the two permits to pool the twelve pertinent graticular blocks on the anomaly. The holders of WA-116-P have an option to drill a 1200 metre test on their portion of the anomaly to earn a 100% working interest in the pooled block of 227,980 acres. If the well is successful, the Oakwood group will receive a 5% gross overriding royalty until the drilling group recovers its exploration and development costs. Thereafter, our group has the option to elect to convert the override position

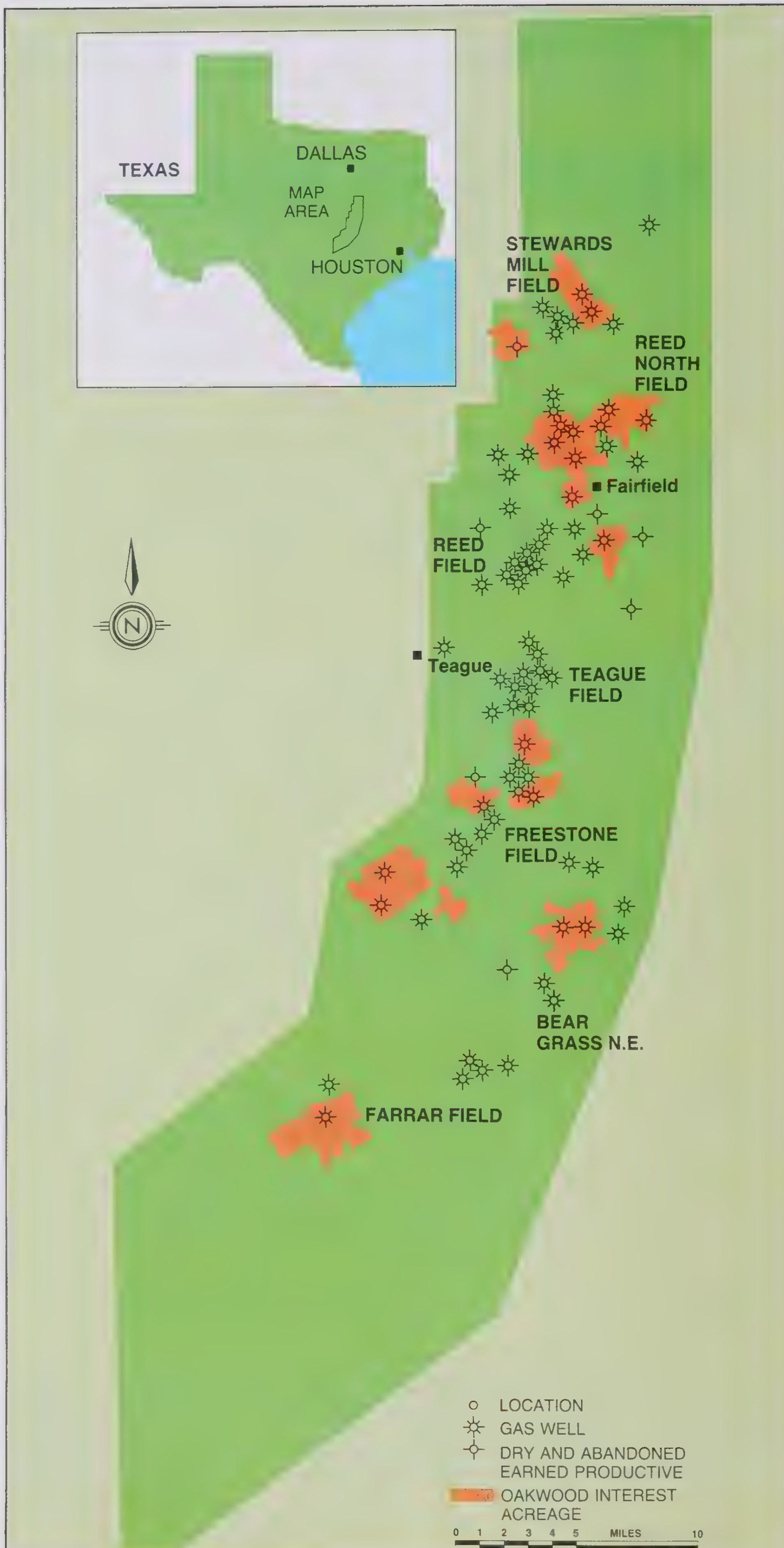




to a 20% working interest. The well is scheduled for early 1982. The East Pendock structures are analogous to the Fitzroy structure. Additional seismic control is being contemplated for 1981 on the remaining identified structures.

SEYCHELLES ISLANDS

The Company has an interest in approximately 860,000 acres in the Seychelles Islands located east of Africa in the Indian Ocean. As a result of conducting extensive seismic surveys over the past three years the group has defined an impressive Tertiary reef anomaly and a deeper Mesozoic structure. During the past year the group was able to negotiate with the Seychelles government an extension of its drilling commitment through December 31, 1981. As a result of negotiations, operatorship was transferred to Santa Fe Energy, enabling Oakwood to increase its working interest from 12½% to 25%. The team is presently attempting to negotiate a farmout to assign a portion of its interest in the blocks for the drilling of an exploratory well. Drilling activity by Amoco at locations approximately 280 kilometres to the northwest have enhanced the interest in the area. Amoco has drilled two wells and is currently on its third offshore location. No information has been released by Amoco as to its findings.



FINANCIAL REVIEW

The accompanying graphs are self-explanatory as they serve to depict the continuing growth and increasing profitability levels attained by Oakwood Petroleums Ltd. during 1980. Net earnings applicable to common shares amounted to $4,361,000 or $0.89 per share for the year as compared to $2,000,000 loss in 1979. More significantly, cash flow from operations in 1980 was at an all-time high of $15,600,000, an approximate 100% increase over the $8,400,000 cash flow level realized in 1979. These cash flow and earnings levels are of course attributable to the growth in producing operations being achieved, primarily in the Grand Forks area of Alberta as considered in some detail in other sections of this report. In addition, the impact of the fixed rate long-term debt financing and the preferred share issue during 1980, had a significant positive impact on your Company's earnings and cash flow levels.

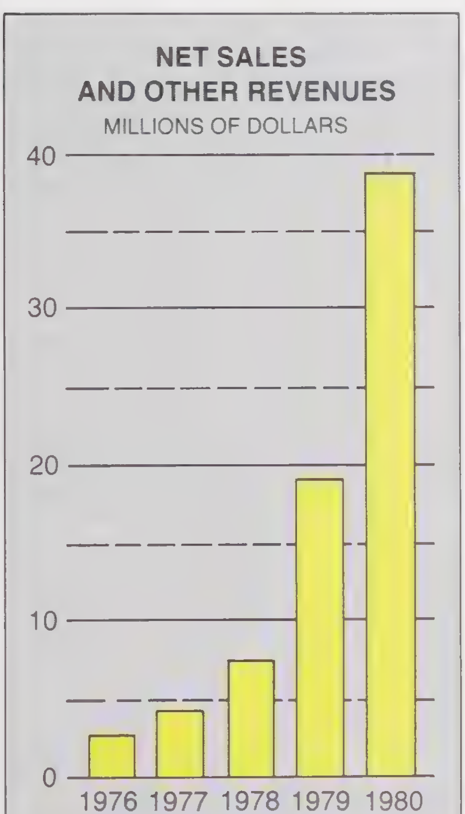
Both the common stock and the Series "A" Preference shares are listed on the Toronto Stock Exchange. Price ranges during 1980 on both classes of stock are shown below:

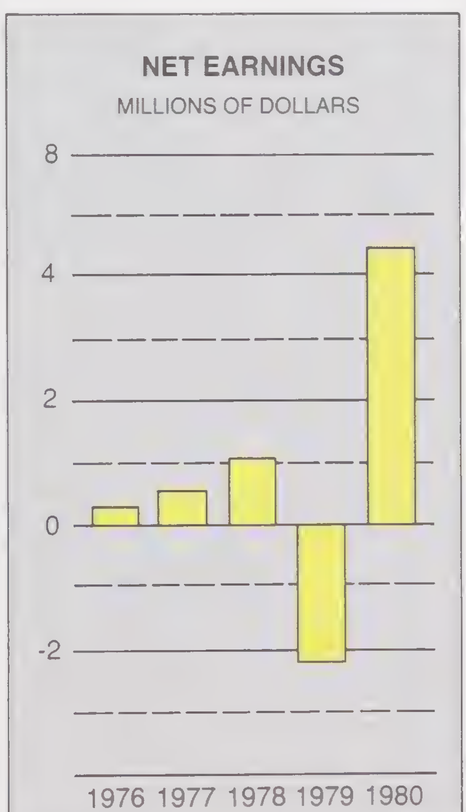
Common Shares

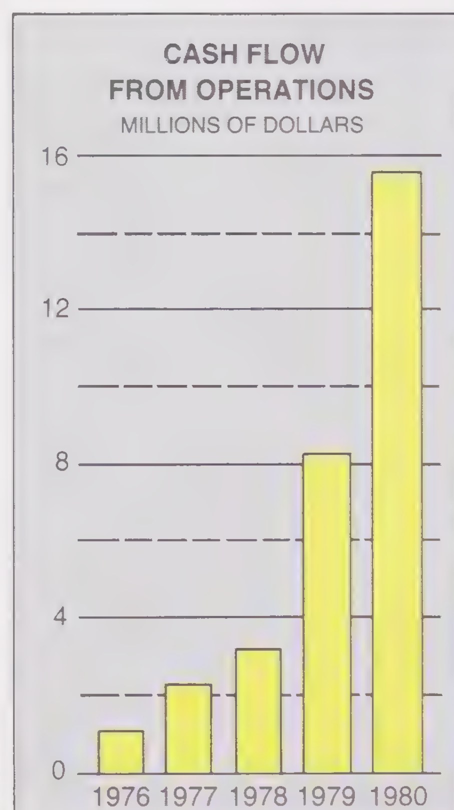
Quarters	High	Low
1st	$25.75	$13.50
2nd	20.13	15.50
3rd	20.75	17.63
4th	26.00	18.50

Series "A" Preference Shares

Quarters	High	Low
1st	$ —	$ —
2nd	—	—
3rd	26.50	23.75
4th	28.25	24.00







CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1980

ASSETS	1980	1979
CURRENT ASSETS		
Cash and term deposits	$ 17,888,000	$ 5,490,000
Accounts receivable		
— trade	16,091,000	12,212,000
— sale of property	—	4,149,000
Receivable from related companies	266,000	409,000
Income taxes recoverable	3,805,000	6,235,000
	38,050,000	28,495,000
INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD. (notes 2 and 12(a))	2,224,000	2,218,000
PROPERTY AND EQUIPMENT, at cost (note 3)	214,033,000	158,079,000
Accumulated depletion and depreciation	27,710,000	19,580,000
	186,323,000	138,499,000
OTHER ASSETS	1,467,000	785,000
	$228,064,000	$169,997,000

LIABILITIES	1980	1979
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 14,803,000	$ 13,537,000
Current maturities on long-term debt	2,167,000	—
	16,970,000	13,537,000
PREPAYMENTS UNDER GAS SALES CONTRACTS	1,750,000	1,052,000
LONG-TERM DEBT (note 4)	142,408,000	139,970,000
DEFERRED INCOME TAXES	13,548,000	10,799,000
MINORITY INTEREST IN SUBSIDIARY COMPANIES	6,889,000	—
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (notes 5 and 12 (b))		
Authorized		
Preferred shares without nominal or par value, issuable in series		
Common shares without nominal or par value		
Issued		
1,500,000 $1.90 Cumulative, redeemable convertible first preferred shares, Series A	36,338,000	—
5,007,377 Common shares (5,450,011 in 1979)	10,592,000	10,354,000
CONTRIBUTED SURPLUS	768,000	768,000
	47,698,000	11,122,000
DEFICIT	(1,199,000)	(5,798,000)
	46,499,000	5,324,000
Less 595,334 Common shares held by wholly-owned subsidiary company (note 5(a))	—	(685,000)
	46,499,000	4,639,000
	$228,064,000	$169,997,000

Approved by the Board

Brian S. Ekstrom

Brian S. Ekstrom, Director

K. W. Germond

K. W. Germond, Director

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1980

	1980	1979
Revenue		
Sale of oil and gas	$35,990,000	$18,590,000
Interest and other	2,380,000	692,000
	38,370,000	19,282,000
Expenses		
Production	4,608,000	3,068,000
General and administrative	2,740,000	1,882,000
Interest on long-term debt	16,240,000	11,081,000
Other interest	106,000	240,000
Depletion and depreciation	8,130,000	4,953,000
	31,824,000	21,224,000
Earnings (loss) before income taxes and extraordinary item	6,546,000	(1,942,000)
Income taxes		
Provincial royalty tax credit	(1,000,000)	(1,286,000)
Current	384,000	(3,998,000)
Deferred	3,786,000	5,410,000
	3,170,000	126,000
Earnings (loss) before extraordinary item	3,376,000	(2,068,000)
Gain on issue of shares and options by subsidiary company (note 6)	2,466,000	—
NET EARNINGS (LOSS)	5,842,000	(2,068,000)
Provision for dividends on preferred shares	1,481,000	—
NET EARNINGS (LOSS) APPLICABLE TO COMMON SHARES	$ 4,361,000	$ (2,068,000)
NET EARNINGS (LOSS) PER COMMON SHARE		
Earnings (loss) before extraordinary item	$ .39	$(.43)
Net earnings (loss)	$ .89	$(.43)

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1980

	1980	1979
BALANCE AT BEGINNING OF YEAR	$ (5,798,000)	$ (3,730,000)
Net earnings (loss)	5,842,000	(2,068,000)
	44,000	(5,798,000)
Dividends on preferred shares	1,243,000	—
BALANCE AT END OF YEAR	$ (1,199,000)	$ (5,798,000)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1980

	1980	1979
WORKING CAPITAL DERIVED FROM		
Operations	$ 15,618,000	$ 8.445.000
Proceeds on sale of property and equipment	112,000	14.207.000
Prepayments under gas sales contracts	698,000	670,000
Increase in long-term debt	104,075,000	107.285.000
Issue of preferred shares	35,301,000	—
Issue of common shares	923,000	301.000
Issue of shares and options by subsidiary company	9,148,000	—
Other	224,000	310,000
	166,099,000	131,218,000
WORKING CAPITAL APPLIED TO		
Investment in acquired subsidiary	—	82,345,000
Less working capital acquired	—	5,344,000
	—	77,001,000
Additions to property and equipment	56,061,000	41,688,000
Reduction of long-term debt	101,637,000	631,000
Dividends on preferred shares	1,243,000	—
Other assets	1,036,000	600,000
	159,977,000	119,920,000
INCREASE IN WORKING CAPITAL	6,122,000	11,298,000
WORKING CAPITAL AT BEGINNING OF YEAR	14,958,000	3,660,000
WORKING CAPITAL AT END OF YEAR	$ 21,080,000	$ 14,958,000

AUDITORS' REPORT

To the Shareholders of
Oakwood Petroleums Ltd.

We have examined the consolidated balance sheet of Oakwood Petroleums Ltd. as at December 31, 1980 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
April 10, 1981

Thorne Riddell
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1980

1. ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. which are wholly-owned except for Oakwood International Petroleum N.L. and its wholly-owned subsidiary Oakwood Petroleum Corporation, which are 63.2% owned.

Acquisitions of subsidiaries are accounted for by the purchase method and. accordingly. only earnings or losses from the date of acquisition are included in the consolidated statement of earnings.

The excess of the consideration paid for shares of subsidiary companies over the book value of their net assets at dates of acquisition is included in property and equipment in the consolidated balance sheet and is amortized on the same basis as such assets, or is deducted from shareholders' equity to the extent of the carrying value of the Company's shares held by the purchased company.

(b) Investment in American Eagle Petroleums Ltd.

The investment in American Eagle Petroleums Ltd. is recorded on the equity basis. The investment therefore includes the Company's share of undistributed earnings since acquisition and the consolidated statement of earnings includes the Company's share of net earnings for the year. The excess of the consideration paid for shares of American Eagle over the book value of its net assets at dates of acquisition has been assigned to property and equipment and is amortized on the same basis as such assets.

(c) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs. carrying charges on non-producing property. costs of drilling both productive and non-productive wells. and related overhead expenses. Such costs. net of proceeds from minor disposals of property, plus estimated future capital costs associated with proven reserves. are accumulated and depleted on a country by country basis (except for frontier areas of Canada which are considered separate cost centres), using the unit of production method based upon estimated proven reserves as determined by the Company's and independent consulting engineers. In calculating depletion. natural gas reserves and production are converted to equivalent units of crude oil based on the relative energy content of each product.

Gains or losses are recognized upon the sale of disposition of properties when the petroleum and natural gas reserves of those properties are significant in relation to the Company's total reserves in the particular cost centre.

Substantially all of the Company's petroleum and natural gas exploration. development and production activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(d) Depreciation

Depreciation of petroleum and natural gas production equipment and related facilities is provided on the unit of production method based upon estimated proven reserves.

Depreciation of other property and equipment is provided on a straight-line basis over the estimated life of each asset at annual rates varying from 10% to 20%.

(e) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on earnings reported in the consolidated financial statements. Accordingly. the Company makes full provision for income taxes deferred as a result of claiming capital cost allowances and exploration and development costs in excess of the amount provided for depreciation and depletion in the consolidated financial statements.

No deduction for income tax purposes is allowed for interest on the Company's income debentures (see note 4) which is included in interest on long-term debt expense in the consolidated statement of earnings.

(f) Foreign Currencies

The accounts of foreign subsidiaries are translated into Canadian dollars on the following basis:

(i) current assets and liabilities, at the rate of exchange as at the balance sheet date;

(ii) all other assets, depletion and depreciation, and non-current liabilities, at rates prevailing when the assets were acquired or the liabilities incurred;

(iii) revenue and expenses, except depletion and depreciation, at the average rate in effect during the period.

Unrealized gains or losses resulting from such translation practices are capitalized as part of property and equipment and are amortized in accordance with policies outlined in notes 1(c) and (d). Realized gains or losses are reflected in earnings.

Other amounts denominated in foreign currency are translated into Canadian dollars on the same basis. Gains or losses resulting from such translation practices are reflected in earnings.

(g) Deferred Charges

Financing charges related to long-term debt are included in other assets in the consolidated balance sheet and are amortized on a straight-line basis over the term of the related debt.

(h) Earnings per Common Share

Basic earnings per common share are calculated using the weighted monthly average number of common shares outstanding during the year (1980, 4,907,714; 1979, 4,794,194) and the net earnings applicable to common shares.

Fully diluted earnings per common share are calculated on the assumption that all rights, including share options and preferred share conversion rights, to acquire common shares which have a dilutive effect have been exercised.

2. INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD.

At December 31, 1980 and 1979 the Company effectively controlled American Eagle Petroleums Ltd. through ownership of 2,030,623 shares (42.11% interest; 42.25% in 1979).

	1980	1979
Shares, at cost	$3,066,000	$3,066,000
Share of losses since acquisition	(842,000)	(848,000)
	$2,224,000	$2,218,000

The aggregate quoted market value of the shares at December 31, 1980 was $7,513,000 (1979, $7,615,000). The quoted market value is not necessarily indicative of the amount which may ultimately be realized on this investment.

3. PROPERTY AND EQUIPMENT

	1980			1979
	Cost	Accumulated Depletion and Depreciation	Net	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon				
Canada	$172,408,000	$25,148,000	$147,260,000	$129,617,000
United States	37,892,000	2,310,000	35,582,000	7,546,000
Other	538,000	—	538,000	260,000
Other property and equipment	3,195,000	252,000	2,943,000	1,076,000
	$214,033,000	$27,710,000	$186,323,000	$138,499,000

4. LONG-TERM DEBT

	Interest Rate	Maturity Date	Payment Terms	1980	1979
Series A Senior Secured Notes	11⅞%	June 15, 1995	\$770,000 June 15, 1984, \$1,565,000 semi-annually thereafter, and \$1,365,000 June 15, 1995	\$ 35,000,000	\$ —
Series B Senior Secured Notes (\$55,000,000 U.S.)	10.9%	June 15, 1995	\$1,230,000 U.S. June 15, 1984, \$2,430,000 U.S. semi-annually thereafter, and \$2,740,000 U.S. June 15, 1995	64,075,000	—
Demand production bank loan	Prime + ¾%			27,500,000	22,500,000
Income debentures	½ Prime + 1¼%	October 1, 1986	\$541,667 quarterly commencing January, 1981	13,000,000	13,000,000
Income debentures	½ Prime + 3%	October 15, 1993 (October 1983 or 1988 at option of the holder)	Annual sinking fund payments of \$400,000 required 1982 to 1992 and \$600,000 in 1993; redeemable after October 15, 1980	5,000,000	5,000,000
Term note	Prime + 2%	December 1, 1987	Payable monthly out of production proceeds	—	79,920,000
Term note	Prime + 1%	June 1, 1985	Payable monthly out of production proceeds	—	19,550,000
				144,575,000	139,970,000
Less current maturities included in current liabilities				2,167,000	—
				\$142,408,000	\$139,970,000

The long-term debt of the Company is secured by certain petroleum and natural gas properties. The bank indebtedness is also secured by accounts receivable and shares of American Eagle.

The demand production bank loan is repayable out of future production proceeds and is not expected to require the use of existing working capital. Accordingly, no portion of such loan has been reclassified to current liabilities.

If the Series B Senior Secured Notes which are payable in U.S. funds had been translated at the rate of exchange as at December 31, 1980, the additional long-term debt liability would have been \$1,787,000.

At December 31, 1980, the estimated principal payments on long-term debt within each of the next five years are approximately as follows: 1981 — \$2,167,000; 1982 — \$2,567,000; 1983 — \$2,567,000; 1984 — \$9,284,000; 1985 — \$11, 516,000.

5. CAPITAL STOCK

(a) Issued

Changes in the issued capital stock for the years ended December 31, 1979 and 1980 are as follows:

	Common Shares		First Preferred Shares, Series A	
	Number of shares	Carrying Value	Number of Shares	Carrying Value
Balance December 31, 1978	5,373,611	$10,053,000		
Issued for cash pursuant to share option agreements	76,400	301,000		
Balance December 31, 1979	5,450,011	10,354,000		
Issued for $37,500,000 cash, less expenses of issue, net of income tax reduction of $1,037,000			1,500,000	$36,338,000
Issued for cash pursuant to share option agreements	152,700	923,000		
Cancelled on liquidation of wholly-owned subsidiary company	(595,334)	(685,000)		
	(442,634)	238,000	1,500,000	36,338,000
Balance December 31, 1980	5,007,377	$10,592,000	1,500,000	$36,338,000

(b) Cumulative Redeemable Convertible First Preferred Shares, Series A

Redemption

The shares are not redeemable prior to September 2, 1985 unless the weighted average price at which the common shares have traded for twenty consecutive trading days on The Toronto Stock Exchange ending on the fifteenth trading day preceding the call for redemption is at least 125% of the conversion price, in which case the shares will be redeemable at $26.90. Commencing September 2, 1985, the shares are redeemable at $25.75, reducing annually by $0.25 to $25.00 at September 2, 1988 and thereafter, plus in each case accrued and unpaid dividends to the date of redemption.

Conversion

The shares are convertible into common shares at the option of the holder at a conversion price of $22.73 per common share prior to September 2, 1984 and $25.00 thereafter to September 1, 1988.

Purchase Obligation

In each calendar quarter, commencing January 1, 1989, the Company is obligated to purchase 1% of the shares outstanding on the record date established for the payment of the September 1, 1988 dividend, at a price not exceeding $25.00 per share plus costs of purchase, such obligation to carry over to succeeding calendar quarters in the same calendar year.

(c) Common Shares Reserved

Common shares may be issued as follows:

	Price	Expiry Date	Number of Shares 1980	1979
Exercise of share options granted to directors, officers and employees	$ 4.17	January 26, 1981	—	77,500
	4.05	September 7, 1983	**45,400**	85,600
	12.49	November 20, 1984	**74,000**	109,000
	18.00	August 11, 1985	**25,000**	—
	16.20	September 2, 1985	**50,000**	—
			194,400	272,100
Conversion of first preferred shares, Series A			**1,650,000**	—
			1,844,400	272,100

(d) Dividend Restriction

Payment of dividends on common shares is subject to approval by the holders of certain of the Company's long-term debt.

6. EXTRAORDINARY ITEM

In October 1980, the Company's wholly-owned Australian subsidiary, Oakwood International Petroleum N.L. issued 28 million shares and 28 million share purchase options to the public for cash consideration of $0.25 and $0.01 (Australian) each respectively thus reducing the Company's ownership of Oakwood International to 63.2%. The extraordinary gain of $2,466,000 realized on the disposition of 36.8% of the Company's investment in Oakwood International is reflected in the consolidated statement of earnings.

7. BUSINESS SEGMENTS

The Company is engaged in one industry segment, oil and gas exploration, development and production. Geographic segment information for the years ended December 31, 1980 and December 31, 1979 is as follows:

	1980			
	Canada	United States	Other	Consolidated
(a) Gross revenue				
Saie of oil and gas	$ 33,836,000	$ 2,154,000	$ —	$ 35,990,000
Operating profit	$ 22,724,000	$ 528,000	$ —	$ 23,252,000
Interest and other revenue				2,380,000
General and administrative expense				(2,740,000)
Interest expense				(16,346,000)
Gain on issue of shares and options by subsidiary company				2,466,000
Income taxes				(3,170,000)
Net Earnings				$ 5,842,000
(b) Identifiable assets	$176,645,000	$39,135,000	$10,060,000	$225,840,000
Investment in American Eagle Petroleums Ltd.				2,224,000
				$228,064,000

	1979			
	Canada	United States	Other	Consolidated
(a) Gross revenue				
Sale of oil and gas	$ 17,748,000	$ 842,000	$ —	$ 18,590,000
Operating profit	$ 10,356,000	$ 213,000	$ —	$ 10,569,000
Interest and other revenue				692,000
General and administrative expense				(1,882,000)
Interest expense				(11,321,000)
Income taxes				(126,000)
Loss				$ (2,068,000)
(b) Identifiable assets	$159,040,000	$8,479,000	$ 260,000	$167,779,000
Investment in American Eagle Petroleums Ltd.				2,218,000
				$169,997,000

8. INCOME TAXES

In 1979, the Company completed certain intercompany property transactions resulting in a liability for income taxes of $35,700,000 being recorded in the accounts of a subsidiary. This amount is eliminated on consolidation. Such income taxes will not become payable until 1982 at the earliest, and such payment, if any, will not affect future net earnings of the Company.

9. RELATED PARTY TRANSACTIONS

In January 1980, the Company purchased one-half of the interest of American Eagle Petroleums Ltd. in certain exploration permits off the East coast of Labrador for $1,450,000 cash, the value having been determined by independent consulting engineers. The Company's portion of the resulting extraordinary gain on sale recorded by American Eagle has been eliminated on consolidation.

Certain employees of the Company have the right to participate in the Company's exploration projects by acquiring, at cost, once production has commenced, a total of 5% working interest in the projects.

In 1980, the Company charged American Eagle Petroleums Ltd. $391,000 for recovery of general and administrative costs and interest on intercompany advances.

During 1980 pursuant to option agreements entered into in 1976 and 1977 the Company exercised its rights (together with other producers in two of the three gas plants) to acquire interests in three gas plants owned by three partnerships in which certain directors and officers of the Company had an interest. The Company's share of the aggregate of the option prices was $1,550,000.

Reference is made to note 12(a).

10. COMMITMENTS

The aggregate minimum rentals payable under long-term operating leases for office space and equipment, net of recoveries from sub-lessees, amount to $4,148,000 at December 31, 1980. Future minimum lease payments, net of recoveries, for each of the next five years are as follows: 1981 — $312,000; 1982 — $324,000; 1983 — $440,000; 1984 — $500,000; 1985 — $528,000.

The aggregate minimum standby charges under long-term contracts for the use of drilling rigs, net of recoveries from third parties, are as follows for the years shown: 1981 — $1,378,000; 1982 — $633,000.

The Company's subsidiary, Oakwood International Petroleum N.L., is committed to expending approximately $5,644,000 in fulfilling work commitments on two Australian exploration permits.

11. STATUTORY INFORMATION

In 1980, the Company and its subsidiaries paid $39,000 to the Company's nine directors in their capacity as directors and $457,000 to six officers of the Company, five of whom are also directors.

12. SUBSEQUENT EVENTS

(a) Investment in American Eagle Petroleums Ltd.

In March 1981, the Company agreed to sell 1,000,000 shares of American Eagle Petroleums Ltd. for $3.50 per share to certain shareholders of White Eagle Oil & Gas Ltd., concurrent with a share exchange agreement between American Eagle and each of the shareholders of White Eagle, whereby American Eagle will acquire all the shares of White Eagle. This sale is conditional upon approval by the shareholders of American Eagle of the acquisition of the White Eagle shares and upon the acquisition by the White Eagle shareholders of all of the aforementioned 1,000,000 shares. If the foregoing occurs, the shareholders of White Eagle will control American Eagle. Two of the directors of the Company own 24% of the capital stock of White Eagle.

(b) Share Purchase Plan

In February 1981, a Share Purchase Plan was established under which key executive personnel of the Company may be granted loans by the Company to acquire shares of the Company. Loans totalling $2,430,000 were then granted to certain officers to acquire 150,000 common shares of the Company at $16.20 per share. Each loan is secured by a non-interest bearing promissory note repayable in eight equal annual instalments commencing February 1982. The shares are held in trust pending payment.

(c) Corporate Organizational Changes

Subject to approval by preferred shareholders and regulatory authorities, the Company intends to distribute to its shareholders shares of its wholly-owned subsidiary company American Oakwood Energy Ltd., a public Alberta company with nominal net assets. On the day following such distribution, the Company intends to sell to American Oakwood the wholly owned subsidiary, Oakwood Resources, Inc., which has been the primary operating subsidiary in the United States of America.

ANNUAL MEETING OF SHAREHOLDERS

Annual General Meeting of Shareholders of Oakwood Petroleums Ltd. will be held in the Britannia Suite of The Westin Hotel Calgary in the City of Calgary, Alberta at the hour of 10:00 A.M. Mountain Daylight Savings Time, June 8, 1981. A formal Notice of Meeting of Shareholders together with an Instrument of Proxy and Information Circular is being mailed to the shareholders concurrently.

OAKWOOD PETROLEUMS LTD.

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